Are the Japanese Rigging the Yen?
The 50 Largest Private Industrial Companies
Sotheby's Lost Art: Management

$3.00

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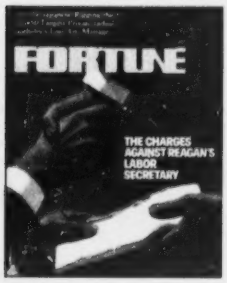
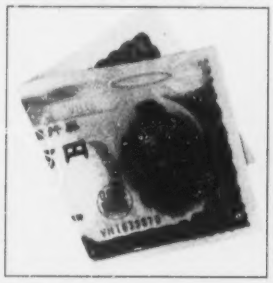
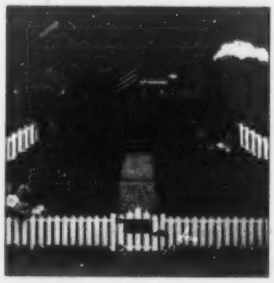


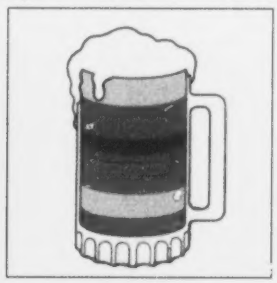
Dennis Luzak's oil painting depicts a symbolic handshake and payoff to a corrupt union official. The cover story begins on page 80.



91 Yen



108 Private Companies



118 Stroh

Departments

4 THE EDITOR'S DESK

7 IN THE NEWS
International Harvester's directors ax Archie McCardell, lean times at **Inland Steel**, the Alaska gas pipeline on hold, **Polaroid** reaches for the 35-millimeter market, Victor Posner is indicted for tax evasion, **Cannon Mills'** chief quits, **Wickes Companies** goes bankrupt—and more

19 LETTERS TO FORTUNE
On the office of the future, merger mismatches, disinflation, Bill Simon's socks, and other matters

73 FORTUNE FORECAST
What's at stake in the deficit wars

Inflation—some real progress

ACKNOWLEDGMENTS

4—Jill Freedman–Archive. 7—Courtesy International Harvester. 12—Courtesy Playboy, courtesy Koppers. 19—Steve Tarantal. 20—Nancy Moran–Sygma. 73,74—Chartmakers Inc. 77,78—Michael McGinn. 92,96—Jim Cavanagh. 108—Ed Gallucci. 111—Courtesy Kohler Co. 120—William Reduto. 124—Eliot Bergman; frame courtesy Sotheby Parke Bernet Inc. 147—Daniel Pelavin.

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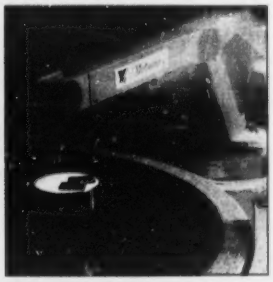
123 Sotheby



138 Thinking Machines

77 KEEPING UP
The media face deflation, Hollywood's missing Communists, voting wrongs, and other matters
by Daniel Seligman

147 PERSONAL INVESTING
Oil-supply companies may have hit bottom
by Aimée L. Morner

153 BED AND BOARD
The new hotel in the old Boston Fed
by David Weld Stevens

157 BOOKS AND IDEAS
The menacing underclass
by Leslie Lenkowsky

161 OFFICE HOURS
Is your office making the right statement about you?
by Walter Kiechel III

GOVERNMENT
80 The Payoff Charges Against Reagan's Labor Secretary *by Roy Rowan*
A FORTUNE investigation of allegations against Raymond J. Donovan suggests that other shoes are about to drop.

TRADE
91 Are the Japanese Rigging the Yen? *by Richard I. Kirkland Jr.*
Critics think so, but the evidence is not so much inscrutable as invisible.

SYNFUELS
105 Exxon's Abrupt Exit from Shale *by Eleanor Johnson Tracy*
As late as February, Chairman Garvin called the company's project "sound." But then the numbers got scary.

The World of the Private Company

DIRECTORY
108 The 50 Largest Private Industrial Companies *by Lisa Miller Mesdag*
If they gave up their cherished secrecy by going public, most would rank in the FORTUNE 500.

TAKEOVERS
118 Betting the Barn at Stroh *by Ann M. Morrison*
The family-held brewery borrowed heavily to acquire Schlitz. But missing the opportunity, says its president, "might have been fatal."

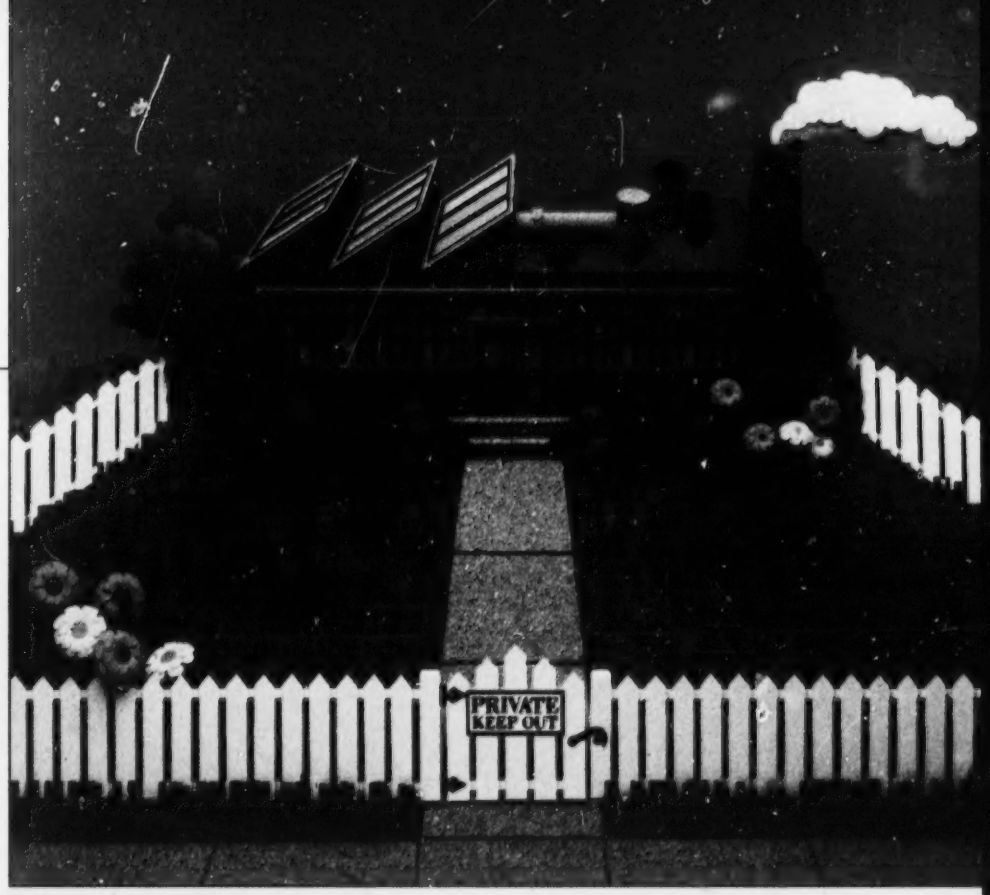
ART MARKET
123 Sotheby's Lost Art: Management *by Gwen Kinkead*
The prospect of its first loss since World War II has precipitated a drastic—and overdue—reorganization.

PICTURE PORTFOLIO
130 The Little People Who Live in Your Car
Humanoid pieces from the parts bin plumb the auto's psyche.

THINKING MACHINES
138 Practical Uses for a "Useless" Science *by Tom Alexander*
Computers that can see, understand English, and diagnose diseases are creeping—slowly—into the market. (Part of a series)

DIRECTORY

The 50 Largest Private Industrial Companies



If they gave up their cherished secrecy by going public, most would rank in the Fortune 500.

by LISA MILLER MESDAG

Ever since Byron Radaker, chairman of Congoleum Corp., took his company private two years ago, he's been cornered at cocktail parties by public-company bosses eager to know when he's going to retire. "They all want my job," boasts Radaker, 48, who pulled off the biggest leveraged buyout in Wall Street history. Radaker's having a ball. Instead of going on road shows to pump the company stock, spending countless hours with government agencies, and worrying about what he calls "all those nameless, faceless shareholders," he is free to concentrate on what he likes doing most—making money. The result: earnings are up and management, with an equity stake in the business, is energized.

Radaker is just one of many who prefer the private path. Of the nation's 2.6 million corporations, 99% are privately held; together they account for half the GNP and half the nation's jobs. The list at right ranks the 50 largest private U.S. industrial corporations by sales volume. They are the Goliaths of private industry, yet their cumulative volume, $48.6 billion, would collectively place them in only the No. 5 spot on the FORTUNE 500, right after Texaco. The sales estimates for oil and beverage companies on the list include excise taxes.

As in the FORTUNE 500, each company listed derives more than half its revenue from manufacturing and/or mining. By sticking to this definition of an industrial company, the list avoids comparing dissimilar businesses—manufacturers and retailers, for instance—and excludes several well-known private names (some of which are discussed on page 112).

Coming up with sales estimates can be difficult. One trait private companies have in common is the vigor with which they defend their privacy. Only a handful supplied FORTUNE with exact sales figures for 1981; others offered estimates, and a few refused to comment. Some chief executives took personal offense at being asked.

Two telephone calls were required to Samuel Newhouse Jr., head of Advance Publications (*Gentlemen's Quarterly, Glamour, Vogue*), before he would divulge the company's correct name. At that, Newhouse wouldn't disclose his title. The No. 1 company, Mars, which spends an estimated $84 million annually to tout its Milky Ways, Snickers, Kal Kan pet foods, and other products, stands mute when it comes to discussing itself. Says a company officer: "It will be a cold day in hell before the president of Mars talks to the press."

One of the most impressive features of the list is the number of recent converts.

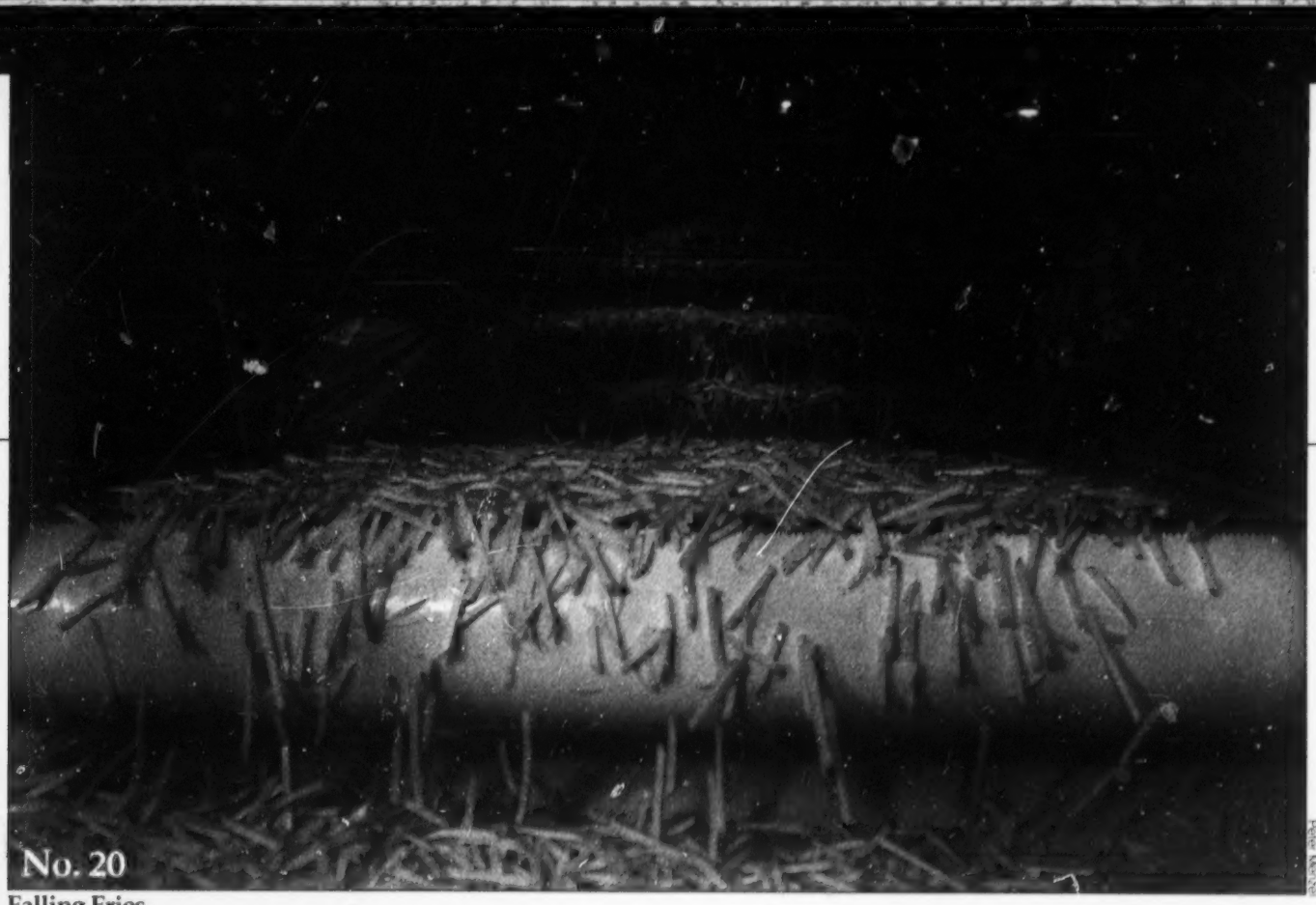
continued

Research associate: Jane Staats

Paper sculpture by Sally J. Vitsky

THE 50 LARGEST PRIVATE INDUSTRIAL COMPANIES

RANK	COMPANY	HEADQUARTERS	INDUSTRY	SALES ($000)
1	**Mars**	McLean, Va.	Candy	4,000,000
2	**Hughes Aircraft**	Culver City, Calif.	Aerospace	3,300,000
3	**GHR**	Destrehan, La.	Petroleum refining, crude-oil production	3,000,000
4	**Milliken**	Spartanburg, S.C.	Textiles	2,000,000
	S.C. Johnson & Son	Racine, Wis.	Chemicals, soaps, cosmetics	2,000,000
6	**Hillman**	Pittsburgh	Electronics, refrigeration and transportation equipment	1,750,000
7	**Dubuque Packing**	Dubuque, Iowa	Meatpacking	1,500,000
8	**Tribune**	Chicago	Newspapers	1,406,000
9	**Advance Publications**	New York	Newspapers, magazines, books	1,400,000
	Amway	Ada, Mich.	Soaps, cosmetics	1,400,000
11	**Gates**	Denver	Rubber products	1,250,000
	Hallmark Cards	Kansas City, Mo.	Greeting cards	1,250,000
13	**Readers Digest Association**	Chappaqua, N.Y.	Magazines, books	1,200,000
	Warren-King	Houston	Crude-oil production, petroleum refining	1,200,000
15	**Hearst**	New York	Newspapers, magazines, books	1,100,000
16	**Congoleum**	Portsmouth, N.H.	Shipbuilding, vinyl flooring	1,000,000
	Hunt Oil	Dallas	Crude-oil production	1,000,000
18	**Steelcase**	Grand Rapids, Mich.	Office furniture	880,000
19	**Pride Refining**	Abilene, Texas	Petroleum refining	850,000
20	**Estée Lauder**	New York	Cosmetics	800,000
	J.R. Simplot	Boise, Idaho	Food, fertilizers	800,000
22	**Metallurg**	New York	Ferroalloy mining and manufacturing	750,000
23	**Hill Petroleum**	Houston	Petroleum refining	747,000
24	**Allen-Bradley**	Milwaukee	Electronic components, industrial controls	700,000
25	**E.W. Scripps**	Cincinnati	Newspapers, magazines	650,000
26	**Norris-N.I. Industries**	Long Beach, Calif.	Appliances, automotive parts, ordnance	647,000
27	**Southwire**	Carrollton, Ga.	Wire, cables	606,000
28	**Lennox Industries**	Richardson, Texas	Air conditioning, heating units	600,000
	Parsons & Whittemore	New York	Paper, fiber and wood products, industrial equipment	600,000
30	**Rock Island Refining**	Indianapolis	Petroleum refining	592,000
31	**Marley**	Mission Woods, Kans.	Pumps, boilers, ventilation equipment	569,000
32	**Drummond**	Jasper, Ala.	Coal mining	566,000
	Stroh Brewery	Detroit	Beer	566,000
34	**Great Lakes Carbon**	New York	Graphite, carbon products	550,000
35	**Schreiber Foods**	Green Bay, Wis.	Cheese	535,000
36	**TIC United**	Dallas	Farm equipment	524,000
37	**AMG Energies**	Garland, Texas	Coal mining	500,000
	E.&J. Gallo Winery	Modesto, Calif.	Wine	500,000
	Houdaille Industries	Fort Lauderdale, Fla.	Seals, pumps, machine tools	500,000
	Moorman Manufacturing	Quincy, Ill.	Livestock feed	500,000
41	**Powerine Oil**	Santa Fe Springs, Calif.	Petroleum refining	480,000
42	**Duchossois Thrall Group**	Chicago Heights, Ill.	Railroad equipment, ordnance, electronics, doors	450,000
	Triangle Publications	Radnor, Pa.	Magazines	450,000
44	**J.M. Huber**	Edison, N.J.	Crude-oil production, printing inks	435,000
45	**Gillett Group**	Nashville	Meatpacking	430,000
	Perdue Farms	Salisbury, Md.	Poultry	430,000
47	**Coca-Cola Bottling of N.Y.**	Hackensack, N.J.	Soft drinks	400,000
	Cox Enterprises	Atlanta	Newspapers	400,000
	Kohler	Kohler, Wis.	Plumbing fixtures, engines, generators	400,000
	United Coal	Bristol, Va.	Coal mining	400,000
	TOTAL			**48,563,000**



Peter Menzel

Falling Fries

At a J.R. Simplot factory in Caldwell, Idaho, 20,000 pounds of potato strips cascade down the production line each hour. Fried, quick-frozen, and packaged, they're destined for McDonald's, Wendy's, Burger Chef, and elsewhere.

The record-setting buyout of Congoleum cost 46 private investors $470 million; as chairman, Radaker got his 7% share for just $1.8 million. Besides Congoleum, five companies on the list went private in the last three years, four through leveraged buyouts.

The top 50 are in everything from meatpacking and plumbing fixtures to poultry and petroleum refining. In 35 cases the majority of shares are held by one family. Forty-one companies are of FORTUNE 500 size, while the other nine would rank high in the Second 500. Many are powerhouses in their fields: Steelcase is the world's largest manufacturer of office furniture, Mars the nation's biggest confectioner, Gallo the most successful winemaker in California's history. Most have been wooed by investment bankers to go public, especially during the Sixties when hundreds of new issues were sold at multiples of 25 times earnings and the stock market offered a way to get rich quick. Still these companies resisted the temptation. Why?

In a word, freedom. For the most part, people who start their own companies have entrepreneurial flair and a yen for freewheeling. Léon A. Danco, founder of the Center for Family Business in Cleveland, thinks power drives many. "There are no shrinking violets," he says. "The owners of private companies have power equaled only by wartime captains of ships at sea and tenured professors in their classrooms." With ownership control, their position is secure. They bridle at the thought of annual reports, SEC filings, probing analysts—all the requirements that Radaker estimates cost Congoleum $7 million a year when it was public.

As many heads of private companies see things, their peers at public corporations are torn by conflicting goals. On one hand, public companies are under pressure to report high profits to shareholders—a group one consultant calls the Great Beast. Tax considerations, on the other hand, pull in the opposite direction: managers want to maximize cash flow, not taxable earnings that must be shared with the IRS.

The owner of a private company faces no such conflict: he buries earnings whenever possible. The right kind of write-off is seen as an opportunity, not a liability. David Jones, 35, president of Pride Refining in Abilene, Texas, actively pursues tax shelters, but concedes that his tactics would differ if he were running a public company: "If I knew my compensation next year

John Marmaras–Woodfin Camp

Trick or Treat

Hallmark will have little raccoons ready for Halloween 1984. These prototypes are on their way to Hong Kong for mass reproduction.

"Every C.E.O. says he plans for the long term," says ITT's former chief executive. "But every C.E.O. lies."

would be based on this year's return on equity, hell no, I wouldn't act the same. You've only got a few years at the top in a public company to make your killing. You want to put every penny on the bottom line to wind up with the juiciest retirement package you can get."

Wall Street's hunger for short-term results keeps public-company managers scrambling to show rising profits every quarter. By contrast, the head of a private company can take a longer view without worrying about a temporary earnings slide. Lyman Hamilton, 55, former chief executive of ITT who now heads the privately owned Tamco Enterprises, believes short-term pressures distort decisions. "Every C.E.O. says he plans for the long term," Hamilton says. "But every C.E.O. lies. He's always temporizing with quarterly earnings. If he doesn't hack it quarter to quarter, he doesn't survive."

The fall of Etherea

Freedom from the Great Beast allows private companies to take risks a public corporation might shun. Leonard Lauder, 49, chief executive of Estée Lauder, the cosmetics maker, cites two examples. Last year, the strong dollar depressed the profitability of exports. Still, Lauder expanded overseas shipments to build market share rather than cutting back to protect earnings—as he says he might have had he been steering a public company.

Similarly, Lauder says, he would have had difficulty launching Clinique, an allergy-tested cosmetics line, if Estée Lauder were a public company. Six months after Clinique came to market in 1968, Revlon introduced a copy called Etherea. In Lauder's opinion, Revlon's fear of clobbering earnings kept it from committing the resources and management needed to make Etherea a winner. "Etherea lost less money than Clinique did that year," he admits. But now Clinique's market share in department stores is 13%, while Etherea's is negligible. Richard Salomon, 70, former president of another cosmetics company, Charles of the Ritz, regrets his decision to go public in 1961 and concurs with Lauder's assessment. "Lauder would never have gotten as far ahead of us had we stayed private," he says. "While they could live with Clinique losing money, our earnings had to go forward."

Hot Tub

Kohler Co. is one of the nation's largest manufacturers of bathtubs. The worker is sifting powdered enamel on a cast-iron tub that's about to go back in the furnace.

Comparing the financial performance of private and public companies is difficult. One of the few studies to do so found that the privately held firms did better. It was conducted by the University of Southern California business school, drawing on 1975 data supplied by the IRS, FTC, SEC, and other sources. Despite their tendency to hide earnings from the tax man, the study concluded, private companies showed profit margins nearly three times as fat as public corporations and earned higher returns on assets.

Privacy has pitfalls, though, when it comes to financing capital projects. Without access to public equity markets, private companies must rely on internally generated cash, bank borrowings, and private debt placements with a small number of institutional investors. As their financing demands grow, the companies are becoming more innovative in making use of tax-exempt industrial-revenue bonds and commercial paper backed by letters of credit. Of two dozen executives interviewed from the top 50, only one felt privacy had impeded his company's growth.

The heads of private companies are fond of bragging about their ability to respond quickly to competitive thrusts. "I can pick up the phone and get approval from my three shareholders in minutes," says William F. Burke, 54, president of Powerine

Some Folks Can't Stay Out of the News

While not comprehensive, the list below offers a sampling of the largest private non-industrial companies in the U.S.—those whose revenues come mainly from businesses outside mining and manufacturing. Beyond doubt, the biggest is Cargill, with sales estimated by FORTUNE at a staggering $28 billion a year. Half of these revenues come from buying agricultural commodities—wheat, corn, sugar—in one place and selling them in another.

Koch Industries and Apex Oil were omitted from the industrial list because less than half their revenues come from exploration, production, and refining. The only company on this list ever to have been public is Twentieth Century-Fox, bought by Denver oil millionaire Marvin Davis, 57, last year.

Despite their private status, some companies have had their share of publicity. Howard Hughes's heirs are still battling for control of Hughes Corp., which owns Hughes Helicopters and Summa Corp. Summa, in turn, owns about 29,000 acres of land and three hotel-casinos in Nevada. (Hughes Aircraft, No. 2 on the industrial list, is owned by the Howard Hughes Medical Institute.)

T. Cullen Davis, 48, an owner of Kendavis Industries, founded by his father, was acquitted of murder three years ago. One of the richest men in Texas, the debonair Davis was accused of wounding his first wife, Priscilla, and killing her lover and her daughter. Two years later Davis was also acquitted of soliciting the murder of the judge who presided over his divorce from Priscilla.

COMPANY	HEADQUARTERS	INDUSTRY	SALES ($000)
Cargill	Minnetonka, Minn.	Commodities trading	28,000,000
Continental Grain	New York	Commodities trading	15,000,000
Koch Industries	Wichita, Kans.	Petroleum marketing	14,000,000
Mocatta Metals	New York	Bullion dealing	13,500,000
Bechtel Group	San Francisco	Engineering and construction	11,400,000
Apex Oil	St. Louis	Petroleum marketing	10,000,000
Kendavis Industries	Fort Worth, Texas	Contract drilling, oil-field supplies	2,000,000
Carlson	Minneapolis	Hotels, trading stamps	1,600,000
Hughes	Las Vegas	Hotels, casinos, helicopters	1,400,000
Twentieth Century-Fox	Los Angeles	Films, television	865,236

Oil, a West Coast refiner. Samuel C. Johnson, 54, chairman of S.C. Johnson & Son (Johnson's Wax, Raid, Pledge), boasts that his company could introduce a furniture polish within six weeks after learning of a new Bristol-Myers product. Quick reflexes are especially important to the six refiners on the list. David Jones at Pride Refining prides himself on the ability to switch his product mix at a moment's notice from, say, gasoline to jet fuel. By contrast, he likens a major oil company to an elephant running downhill: "If you grab his trunk, it takes a while to stop him."

In a public company the potential for embarrassing exposure and the need for accountability cause delays as managers seek second and third opinions. Product surveys, market studies, and field tests are commissioned and consultants and investment bankers hired. The fear of strike suits, bad publicity in the event of error, and carping analysts obliges executives to leave a paper trail. Henry Hillman, 63, president of the Pittsburgh-based conglomerate that bears his name, contrasts this with his style: "I don't write one memo a month. We do everything by talking." Ray Robbins, 61, chairman of Lennox Industries, a Texas manufacturer of furnaces and air conditioners, says his attitude changes when he sits on a public company's board: "I have a fiduciary duty to the shareholders. So I'm more conservative, more ponderous, more inclined to probe. You want to belt the suspenders."

Despite their entrepreneurial environment, private companies may be at a disadvantage when it comes to assembling a management team. Lester Korn, chairman of Korn/Ferry International, an executive-recruiting firm, says headhunters have a hard time recruiting for private companies. Job candidates tend to prefer public outfits that are better known and easier to obtain information about. Lack of financial data fuels suspicion.

A company vizier

A private company can't offer executives the usual stock options; the closest they generally come is to issue some sort of phantom stock that must be sold back to the company when the executive leaves. Consequently, Korn says, to attract top managers private companies have to pay a 20% to 25% cash premium and put together creative compensation packages tailored to their needs—automobiles, home loans, club memberships, even assistance in putting the kids through college.

Once hired by a private company, however, many executives get enveloped by the atmosphere. The boss's long tenure, plus the fact that the top spot is often reserved for a family member, eliminates anxiety about who will be in charge next. Russell Reynolds, who heads an executive-recruiting firm of the same name, finds that private companies experience less turnover. In part, that may be because private-company executives tend to have low profiles and may therefore be less vulnerable to raiding. But the paternalistic practices of many private companies also instill loyalty. S.C. Johnson was among the first corporations to institute profit sharing; it started a no-layoff policy during the Depression, and has long given 5% of pretax earnings to charity. An executive vice president at another company likens his position to that of the vizier in the court of the Turkish sultans: "I've been here six years working with the family as their loyal servant."

Proprietors tend to see themselves as more concerned about the welfare of their communities than are the hired hands of public corporations. Frank Perdue, the chicken man, recalls that several months ago the YMCA in Salisbury, Maryland, was about to close for lack of funds. Perdue, whose family ties to the community date back 300 years, was instrumental in saving it. "It became a matter of personal pride," he says. "I was certainly more concerned than some Harvard MBA who might be running Campbell Soup's Salisbury factory for a stint before he's promoted to another location."

Sam Johnson at Johnson Wax suggests a practical side to the good-citizen argument: "I don't want to bury some toxic chemicals in a field and have it erupt when my son or daughter is sitting in this office." Ray L. Hunt, 39, billionaire owner of Hunt Oil, uses family continuity as a sell-

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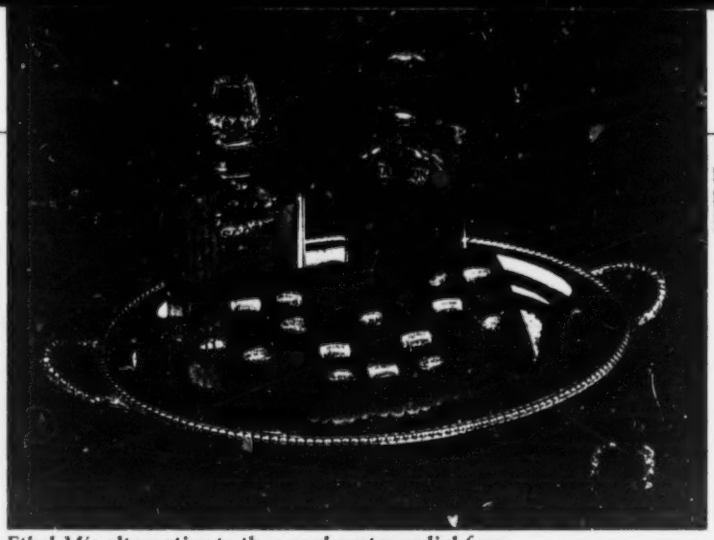

Ed Gallucci

Ethel M's alternative to the usual postprandial fare

Forrest Mars Gives an Encore

At 2 Buster Brown Drive, on a stretch of desert near Las Vegas, 60 white-clad workers engage in an activity that is illegal in 48 states. The man behind the operation is Forrest Mars, 78, sometimes called the Howard Hughes of the candy industry, who built Mars Inc. and turned it over to his two sons several years ago. What's he up to? Making liquor- and liqueur-filled chocolates.

Having never tried his hand at producing a fine boxed chocolate, Mars once remarked that he didn't want to leave this life with Snickers and the like as his only monument. So after retirement he rounded up two trusted colleagues who had been with him more than a quarter-century, invested $6 million, and plunged back into business. His new company, Ethel M, named for his mother, opened in March last year.

Until a year ago, Kentucky was the only state to permit the manufacture of candy containing alcohol. But Mars successfully petitioned the Nevada legislature to change its law. The new law allows confections to contain up to 4% alcohol.

Publicity-shy, Mars forbids his employees to talk about him on pain of instant dismissal. But word of his style has leaked out. He once sank to his knees at a staff meeting in Chicago and intoned: "I pray for Milky Ways. I pray for Snickers." Another time, he hurled an entire case of ill-wrapped candy bars, one by one, at a glass partition to demonstrate his displeasure with the quality slip.

Mars divides his time between his 740-acre Virginia estate and Las Vegas, where he lives in an apartment above the factory. As he did at Mars Inc., he minimizes differences in rank at Ethel M. All employees, including executives, wear white uniforms; everyone punches a time clock; executive parking spaces, even offices, have been eliminated.

Aimed at the 20 million tourists who visit Nevada every year, Mars's new bonbons sell for $10 a pound in 15 hotels in Las Vegas, Reno, and Lake Tahoe and at the Las Vegas airport. They come with or without alcohol and contain no preservatives. The stuff that's spiked with crème de menthe, brandy, scotch, and bourbon cannot be sold across state lines. But anyone expecting the potent burst of booze found in some European varieties will be disappointed; Ethel Ms are creamy, with just a hint of alcoholic flavor.

How are they selling? Dean Musser, administrative director, admits that the company hasn't yet broken even. But by year-end, he hopes, production will reach 20,000 pounds a week, which would bring in about $5 million a year.

R&D is getting top priority. Ethel M is putting the finishing touches on a new coffee-liqueur candy and is working hard on a fresh-tasting strawberry crème that so far has stumped its experts. Unpreserved strawberries, it turns out, contain an enzyme that turns the crème brown.

ing tool. In bidding for rights to drill in the South China Sea, Hunt promised the Chinese: "Five years from now you'll be looking at the same set of faces. What we tell you today will still stand then."

This is not to suggest that privacy is all peaches and cream. Psychologist Harry Levinson, president of the Levinson Institute in Cambridge, Massachusetts, a management consulting firm, is only half joking when he says: "Family business is the most difficult business in the world, and no family ought to be in it." Only 25% survive into the second generation, and as ownership among claimants becomes dispersed, the potential for power struggles, internecine feuds, and divergent interests increases. A welter of organizations ranging from the National Family Business Council, a Washington lobby, to SOBs (Sons of Bosses), founded to help heirs apparent get along with Dad, have sprung up to help families cope.

The survival of a company depends on how the owner deals with succession, nepotism, and estate planning. Drummond Co. has a rule that bans third-generation family members from working there. Garry Drummond, the second-generation chief executive, thinks professional managers would be discouraged with lots of nieces and nephews around. The Newhouse clan takes the opposite view: a score of them occupy management positions.

"The corporate boudoir"

Ray Hunt emphasizes the importance of getting all the owners to play on the same team. After spending a year untangling his father's estate, he sat down with his mother and sisters to plan for the next generation and clarify lines of authority. The conclusion: Hunt runs what he calls a "benevolent dictatorship." He consults with the ladies—then calls the shots. Says he: "It just wouldn't do to have three Hunts calling a geologist with three different sets of instructions."

A dictator can be dangerous, regardless of benevolence, if he has visions of infallibility. Léon Danco cautions proprietors to guard against making "the corporate boudoir as sacrosanct as the personal boudoir." A strong board of outside directors can be valuable. Still, nothing can protect a strong-willed owner from himself: Sam Johnson remembers ordering the consolidation of the company's European manufacturing operations over the protestations of the board and his father. The plan finally worked out, but only after a few disastrous years of turning out cans for the Dutch market with French labels on them—and a $5-million loss.

The top 50 are true believers in the private way of doing business. Only one, AMG Energies, a coal-mining operation in Texas, is actively thinking about going public. The rest relish being mysterious competitors who can scrutinize the finances of their public rivals through a one-way mirror. And they think attention should be directed at their products, not themselves. As Henry Hillman puts it, explaining why he makes a practice of avoiding interviews: "A whale is harpooned only when it spouts."